


Unemployment taxes slam businesses


By [Tami Luhby](#), senior writer February 9, 2010: 10:48 AM ET

NEW YORK (CNNMoney.com) -- Employers are getting hit with a massive tax hike at a time when they can least afford it.

Companies in at least 35 states will have to fork over more in unemployment insurance taxes this year, according to the National Association of State Workforce Agencies.



The median increase will be 27.5%. And employers in places such as Hawaii and Florida could see levies skyrocket more than ten-fold.

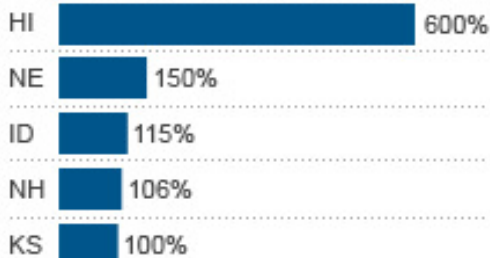


Many of these hikes happened automatically as prolonged joblessness triggered state laws governing their unemployment insurance systems. But at least seven states voted to raise their taxable wage bases, the level of income subject to unemployment tax. And another 10 are looking at upping the wage bases or tax rates.

Employers' tax hike

Businesses in most states are paying more in unemployment insurance taxes.

LARGEST PROJECTED INCREASES FOR 2010



SOURCE: NATIONAL ASSOCIATION OF
STATE WORKFORCE AGENCIES

The states are scrambling to restore their unemployment insurance trust funds, which cover claims.

State trust funds have been decimated by the Great Recession, forcing a record 26 states to borrow a total of more than \$30 billion from the federal government. The numbers are expected to grow to 40 states borrowing \$90 billion by 2012, said George Wentworth, policy analyst at the National Employment Law Project.

"States are going to be facing higher unemployment tax rates for some period of time," Wentworth said.

In addition, employers pay federal unemployment taxes. If states don't repay their federal loans, businesses could see their federal tax go up as well in coming years, said Rich Hobbie, executive director of the National Association of State Workforce Agencies.

Higher taxes, however, dampen employers' ability to hire new workers, crimping any nascent economic recovery. Companies pay taxes on each employee on the payroll.

"There's no doubt it discourages hiring," said Douglas Holmes, president of UWC-Strategic Services on Unemployment and Workers' Compensation, an employers' trade group. "In fact, it leads to increased unemployment."

Cognizant of this, some states are looking to soften the blow through legislation that would delay the hikes.

States suffering

Texas is one of the hard-hit states. Though its unemployment rate is a relatively low 8.3%, jobless claims have soared. In December, Texas paid 330,000 residents a total of \$325.7 million, up from 228,000 people claiming \$216.8 million a year earlier.

The state began borrowing from the feds in July to pay unemployment benefits and now owes Washington \$1.6 billion, said Ann Hatchitt, spokeswoman for the Texas Workforce Commission.

So employers in the Lone Star State will have to pay at least \$64.80 in tax per worker this year, up from \$23.40 a year ago. This is the highest rate in 20 years.

"After having a period of high demand on the unemployment trust fund and rising unemployment, we had to set the rates for 2010 to replenish the trust fund," Hatchitt said.

Employers in some other states could face even steeper hikes, unless their legislatures act quickly.

In Hawaii, taxes automatically increased from an average of \$90 per worker in 2009 to \$1,070 this year. Part of the problem stems from the fact that the state was generous to businesses during prosperous times. In fact, lawmakers lowered the tax rate in 2007, when unemployment did not exceed 3.1%. The state's jobless rate now stands at 6.9%.

Concerned that this hike will crush local businesses, Republican Gov. Linda Lingle is urging lawmakers to limit the increase to 60% of the proposed hike.

"We believe strongly that anything beyond this 60% threshold will cause large job losses," Lingle said last month.

Florida, meanwhile, has increased its minimum payroll tax to \$100.30 per employee this year, up from \$8.40. About half of the state's employers pay the minimum. The state also raised the taxable wage base to \$8,500, from \$7,000.

When lawmakers approved an increase in unemployment taxes a year ago, they didn't realize what the impact would be, said Rep. Dave Murzin, who heads the state's Economic Development & Community Affairs Policy Council. The state's unemployment rate was 7.6% at the end of 2008, versus 11.8% in December.

Now that lawmakers see the numbers, they are working to minimize the effect on businesses. The council plans to take up legislation this week that would restore the taxable wage base level to \$7,000 and allow companies to pay the tax in installments over the next two years.

This means the Sunshine State's trust fund won't return to solvency until 2015, instead of 2012. But the governor and lawmakers feel this deal will keep more workers on company payrolls.

"It's still going to be an increase, but it won't be as dramatic an increase and it won't hit as hard," Murzin said. "You tell businesses to pony up and write a big check and that puts more people out of business." ■
